

Office of the Legislative Auditor

State of Montana



Report to the Legislature

December 1992

Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 1992

Office of Public Instruction

This report contains issues related to:

- ▶ Compliance with state law regarding additional state equalization aid to school districts.
- ▶ Federal financial assistance programs.
- ▶ Payment in Lieu of Taxes Act.

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1991 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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STATE OF MONTANA

Office of the Legislative Auditor

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LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

December 1992

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Office of Public Instruction for the two fiscal years ending June 30, 1992. Included in this report are three recommendations concerning compliance with state law regarding additional state equalization aid to school districts and compliance with federal maintenance of fiscal effort and financial reporting requirements. Also included in the report is one disclosure issue.

We thank the Superintendent and her staff for their assistance and cooperation.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat
Legislative Auditor

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Office of the Legislative Auditor

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1992

Office of Public Instruction

Members of the audit staff involved in this audit were: Jody Bisom, Brenda Bokovoy, Pete Brustkern, Cindy S. Jorgenson, Glenn Jorgenson, Charles Nemec, Lorry Parriman, Vickie Rauser, and Catherine L. Scarff.

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Elected and Administrative Officials

Elected Officials

Nancy Keenan

Superintendent of Public Instruction and
Executive Officer for K-12 Vocational
Education

Administrative Officials

Jack Copps

Deputy Superintendent of Public
Instruction

Scott Buswell

Assistant Superintendent for Educational
Technology

Gregg Groepper

Assistant Superintendent for Operations

Gail Gray

Assistant Superintendent for Curriculum
Services

Beda Lovitt

Legal Counsel

Kathleen Holden

Legal Counsel

Kathy Fabiano

Administrator, Centralized Services

Summary of Recommendations

This listing below serves as a means of summarizing the recommendations contained in the report, the office's response thereto, and a reference to the supporting comments.

<u>Recommendation #1</u>	We recommend OPI revise its procedures to ensure compliance with state law in disbursing additional state equalization aid..	6
	<u>Agency Response:</u> Conditionally concur. See page B-3.	
<u>Recommendation #2</u>	We recommend OPI comply with federal regulations concerning the treatment of capital outlay when calculating maintenance of effort.	7
	<u>Agency Response:</u> Concur. See page B-4.	
<u>Recommendation #3</u>	We recommend OPI ensure the federal financial reports reconcile to the state's accounting records.	8
	<u>Agency Response:</u> Concur. See page B-4.	

Introduction

We performed a financial-compliance audit of the Office of Public Instruction (OPI) for the two fiscal years ended June 30, 1992. The objectives of the audit were to:

1. Determine if OPI complied with applicable state and federal laws and regulations which could have a significant effect on the financial schedules.
2. Determine if OPI's financial schedules fairly present the results of operations for the audit period.
3. Recommend improvements in the management and internal controls of OPI.
4. Determine the implementation status of prior audit recommendations.

This report contains three recommendations to OPI and one disclosure issue. The recommendations address where OPI can improve compliance with state law and federal regulations. In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations made in this report. Areas of concern deemed not to have a significant effect on the successful operations of OPI programs are not specifically included in the report, but have been discussed with management.

Background

OPI was established by Section I, Article VI of the Constitution of Montana. The Superintendent of Public Instruction is elected to serve a four-year term and is responsible for the general supervision of the public schools and school districts of the state. The superintendent is also the ex-officio secretary of the State Board of Education and the governing agent and executive officer for K-12 vocational education in the state.

OPI personnel indicated they provide services to approximately 155,000 school age children and 9,900 teachers in over 500 school districts. OPI provides technical assistance in planning, implementing, and evaluating educational programs in such areas as teacher preparation, teacher certification, school accreditation, school curriculum, school finance, and school law. The

Introduction

staff administers a number of federally funded programs and provides a variety of information services.

OPI was authorized 140.23 full-time equivalent employees in fiscal year 1991-92. OPI disbursed approximately \$456.7 million in fiscal year 1990-91 and \$474.5 million in fiscal year 1991-92 to carry out its various programs. Budgeted and nonbudgeted revenue and transfers in for the General and Special Revenue Funds totalled approximately \$177 million in fiscal year 1990-91 and \$208 million in fiscal year 1991-92. Of this revenue, \$26 million in fiscal year 1990-91 and \$26.7 million in 1991-92 was federal assistance. The office also accounted for approximately \$34 million in fiscal year 1990-91 and \$38 million in fiscal year 1991-92 of federal pass-through moneys in the Agency Fund. The balance of the disbursements were financed with cash transfers and state General Fund support.

Budgeted expenditures in the General and Special Revenue Funds are detailed by program in the Schedules of Budgeted Program Expenditures and Transfers Out by Object and Fund - Budget and Actual on pages A-6 and A-7 of this report. OPI's legislative appropriations are allocated by program. OPI reorganized its program structure in fiscal year 1991-92. The reorganization combined the office's operations into two programs. These programs are discussed below.

OPI Administration - This program includes activities related to data processing, word processing, purchasing, legal, payroll, personnel, mail, and analytical and accounting support to operations within the office. It also includes responding to requests for information and data from school districts, the federal government, elected officials, and the general public. This program also accounts for activities involving all federal grants received by the office including costs of administering Elementary and Secondary Education Act Chapter I, Special Education, Vocational Education (K-12), and Title IV (Civil Rights) grants. This program includes teacher certification, accreditation, adult basic education, the film library, drivers' education, school food services, and audiology activities. Reference library functions and school publications are accounted for in this program.

Distribution to Public Schools - the expenditures in this program relate to state and county equalization distributions, state traffic education distributions, distributions of federal funds and grants that allow OPI distribution discretion. Also this program accounts for activity related to distributions of federal funds passed through to counties and school districts. The Schedule of Agency Fund Activity on page A-8 summarizes the pass-through expenditures.

Prior Audit Recommendations

Prior Audit Recommendations

The previous financial-compliance audit of OPI for the two fiscal years ended June 30, 1990, contained three recommendations still applicable to OPI. The office implemented all three recommendations.

Findings and Recommendations

Additional State Equalization Aid

When a school district has an unanticipated increase in enrollment, it is allowed to apply for additional state aid. The superintendent of public instruction is required to approve or disapprove each application. Section 20-9-166, MCA, states "the superintendent of public instruction shall disburse the state aid to the eligible district at the time the next regular state aid payment is made."

During fiscal years 1990-91 and 1991-92, OPI approved additional state aid totalling \$456,944 for 28 school districts. We reviewed OPI's procedures for distributing additional aid to the school districts. We noted 21 approvals totalling \$161,796 and \$213,307 in fiscal years 1990-91 and 1991-92, respectively, where the school district did not receive the total approved amount at the time of the next regular state aid payment. For 19 of the 21 approvals, OPI allocated the additional state aid, in equal amounts, over the remaining foundation payments made to the school district for the applicable fiscal year. The two remaining requests were not received or approved by OPI prior to its disbursement of the final foundation payment in the fiscal year. These school districts received their additional state aid in November of the subsequent fiscal year.

OPI personnel stated its system does not allow lump sum adjustments, but instead allocates the adjustment over the remaining foundation payments for the fiscal year. OPI personnel further stated for applications not approved until after the final foundation payment for the year, its system would not allow an adjustment until the November payment since the first few payments of the subsequent year are based on estimates from the prior fiscal year. According to OPI personnel, they are in the process of addressing this issue through enhancements to the system. OPI personnel stated they intend to make a "catch up" payment to the school district at the time an application is approved and adjust subsequent payments due to the increased enrollment. For example, if the application is approved in November, OPI would make a lump sum payment covering July through November and make subsequent monthly payments based on the revised enrollment. After the "catch up" payment,

Findings and Recommendations

the school district would receive its additional aid as though the increased enrollment had been in effect since the first of the fiscal year. The school district would then have neither an advantage nor a disadvantage resulting from increased enrollment.

Recommendation #1

We recommend OPI revise its procedures to ensure compliance with state law in disbursing additional state equalization aid.

Federal Compliance

The following two sections address issues related to federal financial assistance programs administered by OPI. These issues were included in the Montana Single Audit Report, issued by our office in June 1992, as required by the Single Audit Act of 1984. OPI concurred with and implemented both of these recommendations subsequent to the issuance of the Single Audit Report. They are repeated in this report to provide a complete publication of the recommendations made to OPI for the two-year audit period ended June 30, 1992.

Maintenance of Fiscal Effort

During fiscal year 1990-91, OPI received approximately \$13 million from the U.S. Department of Education for the Educationally Deprived Children-Local Educational Agencies Program (CFDA #84.010). The objective of the program is to provide funds through state educational agencies to local educational agencies to meet the special educational needs of educationally deprived children in school attendance areas with high concentrations of children from low-income families. Federal regulations for this program include a maintenance of effort requirement. The combined fiscal effort per student or the aggregate expenditures of a local educational agency from state and local funds must not go below a certain limit. The federal regulations

Findings and Recommendations

outline expenditures which may not be included when calculating maintenance of effort.

We reviewed the maintenance of effort determination which OPI completed in April 1991. This determination compared aggregate expenditures between fiscal years 1988-89 and 1989-90. We noted OPI included revenue received from a local mill levy, designated for bus depreciation, when calculating this maintenance of effort. The bus depreciation reserve fund is used for replacement of buses and is considered a major capital outlay. Federal regulations do not allow the state educational agency to use capital outlay expenditures when calculating maintenance of effort. According to OPI personnel, this revenue has been included in the maintenance of effort calculation for many years. Personnel responsible for the calculation requested computer programming changes for fiscal year 1989-90 to exclude the local mill levy and include other items. The changes were not made as requested and the local levy remained in the calculation.

We did not find evidence indicating the maintenance of effort requirement was not met; however, the potential exists for this to occur. In January 1992, OPI personnel began analyzing the components in its maintenance of effort calculation to determine allowability. The analysis included requesting clarification of certain issues from the U.S. Department of Education. OPI personnel stated programming changes have been made for verifying maintenance of effort between fiscal years 1989-90 and 1990-91 and both fiscal years' aggregate expenditures have been calculated under the same criteria.

Recommendation #2

We recommend OPI comply with federal regulations concerning the treatment of capital outlay when calculating maintenance of effort.

Findings and Recommendations

Federal Financial Report

The federal government requires state agencies to periodically report the financial status of grants received by the state. Federal regulations require the recipient of the grants to ensure the financial status reports contain reliable financial data. OPI received approximately \$2 million of Vocational Education-Basic Grants to States (CFDA #84.048) from the Montana Commissioner of Higher Education Office (CHE) during fiscal year 1990-91. According to the subgrant agreement, OPI is required to submit a financial status report to CHE disclosing expenditures incurred during the state fiscal year.

We reviewed the June 30, 1991 financial status report submitted by OPI to CHE and noted the report did not agree to the state's accounting records. We identified differences ranging from \$1,175 to \$54,221. OPI personnel use a computer spreadsheet to track expenditures for each fiscal year. The financial status report is prepared from this spreadsheet. According to OPI personnel, the spreadsheet contains refunds and adjustments which occurred after fiscal year-end and therefore, are not included on the state's accounting records as of June 30, 1991. OPI personnel could not provide a reconciliation of the amounts reported to CHE to those recorded on the state's accounting records. Since federal regulations require financial reports submitted be complete and accurate and the Statewide Budgeting and Accounting System (SBAS) has been designated as the state's official accounting records, OPI should ensure the amounts reported to CHE are reconciled to SBAS.

Recommendation #3

We recommend OPI ensure the federal financial reports reconcile to the state's accounting records.

Payments in Lieu of Taxes

The United States Department of the Interior, Bureau of Land Management administers the Payment in Lieu of Taxes (PILT) Act. The purpose of this program is to reimburse counties for tax revenues that could be realized if there were no federal lands within the county. PILT payments supplement funds given to counties through revenue sharing programs based on federal land use. Montana participates in four of the revenue sharing programs: United States Forest Service National Forest; Taylor Grazing (Sections 3 & 15); Bureau of Land Management, Bankhead-Jones; and Fish & Wildlife Service Refuge Revenue Sharing.

Federal regulations authorize PILT payments to local units of government based on the number of acres of "entitlement lands" within the county. "Entitlement lands" consist of lands in the National Forest and Park Systems, lands administered by the Bureau of Land Management, and lands dedicated to the use of federal water resource development projects. Dredge disposal areas under the jurisdiction of the Army Corps of Engineers, semi-active Army installations used for non-industrial purposes, and certain lands donated to the United States Government by state and local governments are also included in "entitlement lands."

The PILT program provides a maximum amount or ceiling for each county based on the number of people in the county and a sliding scale. When calculating the final PILT payments, the federal government considers the amount of federal revenue sharing distributed to the counties in the previous year. PILT regulations state:

"Only the amount of Federal land payments actually received by units of government in the prior fiscal year are deducted. If a unit of government receives a Federal land payment, but is required by State law to pass all or part of this payment to financially and politically independent school districts, or other single or special purpose district, such redistributed payments are considered to have not been received by the unit of local government and are not deducted from the . . . in-lieu payment."

Disclosure Issue

Montana counties receive the four types of land use payments from the federal government listed above and distribute them as follows:

	Percentage Split		Montana Statute
	<u>County</u>	<u>School District</u>	
USFS National Forests	66.7	33.3	17-3-213
Taylor Grazing (Section 3 & 15)	50	50	17-3-222
BLM Bankhead-Jones	100	0	None
FWS Refuge Revenue Sharing	100	0	None

We have determined Montana counties and the state have an opportunity to bring more federal money into their taxing jurisdictions. As more of the federal revenue sharing dollars are allocated to school districts, the final PILT payment to the affected counties increases and the amount of the state's obligation to fund school districts through the State Equalization Aid (SEA) account and/or the General Fund decreases. Counties may, however, experience a net reduction in revenues because the increase in the final PILT payment is not enough to offset the additional amount allocated to school districts. The state could reimburse the county to compensate for this net revenue loss. According to our calculations, the state could make this reimbursement and still achieve a net savings to the SEA/General Fund up to \$3.4 million per year. The following table illustrates the potential increased federal revenues and the net savings using federal fiscal year 1990-91 data.

Table 1

Calculation of Potential State Savings Based on Federal
Revenue Sharing Allocations to Counties and School Districts
Federal Fiscal Year 1990-91

<u>County Allocation</u>	<u>Federal Revenue Sharing Payments to Counties</u>	<u>Revised Estimated PILT Payment to County</u>	<u>Revised County Revenue</u>	<u>Total 1991 Realized County Revenue*</u>	<u>Difference to County</u>
CURRENT	\$5,716,468	\$7,998,820	\$13,715,288	\$13,715,288	\$0
50%	\$4,191,309	\$8,670,445	\$12,861,754	\$13,715,288	\$(853,534)
25%	\$2,095,655	\$9,748,129	\$11,843,783	\$13,715,288	\$(1,871,505)
0%	\$0	\$11,408,432	\$11,408,432	\$13,715,288	\$(2,306,856)

<u>Revised School District Revenue</u>	<u>Realized 1991 School District Revenue</u>	<u>Difference to School District</u>	<u>Potential Savings to State General Fund**</u>
\$2,666,162	\$2,666,162	\$0	\$0
\$4,191,309	\$2,666,162	\$1,525,147	\$671,612
\$6,286,964	\$2,666,162	\$3,620,802	\$1,749,296
\$8,382,618	\$2,666,162	\$5,716,456	\$3,409,599

* Includes all revenues - prior year federal land payments + final PILT payment

** Assumes state covers shortfall to the counties

Source: Statement of Federal Land payments, September 30, 1990 and U.S. Department of Interior, Bureau of Land Management - Montana Payments in Lieu of Taxes, Fiscal Year 1991.

Reallocation of federal revenue sharing moneys requires legislation. If the Legislature made such a reallocation, there could be a potential delay in any savings to the state and in receiving revenue at the county level. This is due in part to the timing of the revenue sharing payments and the PILT payment. The state could make "hold harmless" payments to counties based on estimated amounts the county would be due under the current federal land payment allocations. This would mitigate the impact at the county level. When the final revenue sharing and PILT amounts are known the state and counties could settle for any differences due to changes in estimates.

Disclosure Issue

We discussed this issue with the executive director of the Montana Association of Counties. The executive director expressed some concerns related to any reallocation of federal revenue sharing moneys. The concerns related primarily to the subsequent availability of state funds for reimbursement to the counties. Such a reallocation of these moneys subjects the counties to appropriations/reauthorizations at both federal and state levels.

This section is presented for disclosure purposes to allow the Legislature an opportunity to consider this issue.

Independent Auditor's Report & Agency Financial Schedules

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The financial schedules are from the Statewide Budgeting and Accounting System (SBAS), without adjustments for errors noted during the audit. The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance which can be placed on the amounts presented. We issued an unqualified opinion on OPI's financial schedules for the two fiscal years 1990-91 and 1991-92. An unqualified opinion indicates schedules are fairly stated in all material respects and the user can rely on the information presented.



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Performance Audit

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Office of Public Instruction for each of the two fiscal years ending June 30, 1991 and 1992, as shown on pages A-4 through A-12. The information contained in these schedules is the responsibility of management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1 to the financial schedules, the office's financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the office's assets and liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Office of Public Instruction for the two fiscal years ending June 30, 1991 and 1992, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

September 15, 1992

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1992

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Internal Service Fund</u>
FUND BALANCE: July 1, 1990	\$ <u>0</u>	\$ <u>2,021,535</u>	\$ <u>14,317</u>
ADDITIONS			
<u>Fiscal Year 1990-91</u>			
Budgeted Revenue & Transfers In	66,480	176,522,771 ¹	883,593
Nonbudgeted Revenue & Transfers In	32,126	352,412	
Prior Year Expenditure Adjustments	47,692	319	
Direct Entries to Fund Balance	170,437		
Support from State of Montana	44,565,688 ⁴		
Cash Transfers In		179,020,019 ³	
Prior Year Revenue		(210,803)	(5,663)
Prior Year Transfers In		(48,188)	
Prior Year Revenue Adjustments		1,385	
 <u>Fiscal Year 1991-92</u>			
Budgeted Revenue & Transfers In	33,039	208,181,696 ¹	987,790
Nonbudgeted Revenue & Transfers In	1,747	185,400	
Prior Year Expenditure Adjustments	32,577	127,546	
Support From State of Montana	58,958,711 ⁴		
Cash Transfers In		174,552,271 ³	
Prior Year Revenue		(38,194)	
Prior Year Transfers In		(179)	
Prior Year Transfer In Adjustments		90	
Total Additions	<u>103,908,497</u>	<u>738,646,545</u>	<u>1,865,720</u>
 REDUCTIONS			
<u>Fiscal Year 1990-91</u>			
Budgeted Expenditures & Transfers Out	44,965,255 ⁴	375,937,419	861,984
Prior Year Expenditures	(82,832)	(126,689)	
Direct Entries To Fund Balance		170,438	
Nonbudgeted Expenditures & Transfers Out			(7,036)
Prior Year Expenditure Adjustments			37,299
 <u>Fiscal Year 1991-92</u>			
Budgeted Expenditures & Transfers Out	59,003,596 ⁴	375,886,620	978,173
Prior Year Revenue Adjustments	22,478	1,986,703	
Nonbudgeted Expenditures & Transfers Out			6,724
Prior Year Expenditure Adjustments			2,893
Total Reductions	<u>103,908,497</u>	<u>753,854,491</u>	<u>1,880,037</u>
FUND BALANCE: June 30, 1992	\$ <u>0</u>	\$ <u>(13,186,411)</u> ²	\$ <u>0</u>

¹ See note 6

² See note 9

³ See note 5

⁴ See note 7

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1992

	Licenses and Permits	Sale of Documents, Merchandise, & Property	Taxes	Charges for Services	Investment Earnings	Miscellaneous	Grants, Contracts, Documents & Abandonments	Other Financing Sources	Federal	Total
<u>Fiscal Year 1991-92</u>										
GENERAL FUND										
Estimated Revenue	\$ 40,000	\$20,100								\$ 60,100
Actual Revenue	<u>0</u>	<u>33,039</u>								<u>33,039</u>
Collections Over (Under) Estimate	<u>\$(40,000)</u>	<u>\$12,939</u>								<u>\$ (27,061)</u>
SPECIAL REVENUE FUNDS										
Estimated Revenue	\$203,000		\$151,850,300	\$127,000	\$ 375,000 ₃	\$ 5,000	\$ 60,704	\$ 42,789,974 ₂	\$ 38,967,237	\$234,378,215
Actual Revenue	<u>233,537</u>		<u>160,769,231</u>	<u>118,645</u>	<u>11₃</u>	<u>481</u>	<u>30,395</u>	<u>20,957,841₂</u>	<u>26,071,555</u>	<u>208,181,696₁</u>
Collections Over (Under) Estimate	<u>\$ 30,537</u>		<u>\$ 8,918,931</u>	<u>\$(8,355)</u>	<u>\$(374,989)</u>	<u>\$(4,519)</u>	<u>\$(30,309)</u>	<u>\$(21,832,133)</u>	<u>\$(12,895,682)</u>	<u>\$(26,196,519)</u>
INTERNAL SERVICE FUND										
Estimated Revenue								\$ 435,074	\$ 521,741	\$ 956,815
Actual Revenue								<u>435,074</u>	<u>552,716</u>	<u>987,790</u>
Collections Over (Under) Estimate								<u>\$ 0</u>	<u>\$ 30,975</u>	<u>\$ 30,975</u>
<u>Fiscal Year 1990-91</u>										
GENERAL FUND										
Estimated Revenue	\$ 30,000	\$ 60,000								\$ 90,000
Actual Revenue	<u>53,271</u>	<u>13,209</u>								<u>66,480</u>
Collections Over (Under) Estimate	<u>\$ 23,271</u>	<u>\$(46,791)</u>								<u>\$ (23,520)</u>
SPECIAL REVENUE FUNDS										
Estimated Revenue	\$ 49,000	\$ 5,000	\$140,933,254	\$ 97,943	\$ 1,800,000 ₃	\$ 500	\$100,500	\$ 9,526,149 ₂	\$35,157,991	\$187,670,337 ₁
Actual Revenue	<u>142,644</u>	<u>0</u>	<u>141,876,312</u>	<u>74,442</u>	<u>141,131₃</u>	<u>210</u>	<u>89,106</u>	<u>7,455,131₂</u>	<u>26,743,795</u>	<u>176,522,771₁</u>
Collections Over (Under) Estimate	<u>\$ 93,644</u>	<u>\$(5,000)</u>	<u>\$ 943,058</u>	<u>\$(23,501)</u>	<u>\$(1,658,869)</u>	<u>\$(290)</u>	<u>\$(11,394)</u>	<u>\$(2,071,018)</u>	<u>\$(8,414,196)</u>	<u>\$(11,147,566)</u>
INTERNAL SERVICE FUND										
Estimated Revenue								\$ 490,641	\$ 490,000	\$ 980,641
Actual Revenue								<u>411,073</u>	<u>472,520</u>	<u>883,593</u>
Collections Over (Under) Estimate								<u>\$ (79,568)</u>	<u>\$ (17,480)</u>	<u>\$ (97,048)</u>

¹See note 6

²See note 7

³See note 8

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES & TRANSFERS OUT
BY OBJECT AND FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1992

	OPI Administration ¹	Distribution To Public School	Total
PERSONAL SERVICES			
Salaries	\$3,834,377		\$ 3,834,377
Hourly Wages	3,334		3,334
Employee Benefits	873,516		873,516
Total	<u>4,711,227</u>		<u>4,711,227</u>
OPERATING EXPENSES			
Other Services	1,131,428	\$ 1,786	1,133,214
Supplies & Materials	221,527	922	222,449
Communications	299,766	88	299,854
Travel	574,567	4,421	578,988
Rent	202,674		202,674
Utilities	17,718		17,718
Repair & Maintenance	62,095		62,095
Other Expenses	729,037	256	729,293
Total	<u>3,238,812</u>	<u>7,473</u>	<u>3,246,285</u>
EQUIPMENT AND INTANGIBLE ASSETS			
Equipment	288,841		288,841
Intangible Assets	5,473		5,473
Total	<u>294,314</u>		<u>294,314</u>
LOCAL ASSISTANCE			
From State Sources	16,078	409,269,690	409,285,768
Total	<u>16,078</u>	<u>409,269,690</u>	<u>409,285,768</u>
GRANTS			
From State Sources		1,305,231	1,305,231
From Federal Sources	69,888	4,380,783	4,450,671
Total	<u>69,888</u>	<u>5,686,014</u>	<u>5,755,902</u>
TRANSFERS			
Accounting Entity Transfers	474,893	12,100,000 ²	12,574,893
Total	<u>474,893</u>	<u>12,100,000</u>	<u>12,574,893</u>
TOTAL PROGRAM EXPENDITURES	<u>\$8,805,212</u>	<u>\$427,063,177</u>	<u>\$435,868,389</u>
GENERAL FUND			
Budgeted	\$3,688,904	\$ 70,518,135	\$ 74,207,039 ²
Actual	3,587,876	55,415,720	59,003,596
Unspent Budget Authority	\$ 101,028	\$ 15,102,415	\$ 15,203,443
SPECIAL REVENUE FUNDS			
Budgeted	\$5,229,119	\$379,619,864	\$384,848,983
Actual	4,239,163	371,647,457	375,886,620
Unspent Budget Authority	\$ 989,956	\$ 7,972,407	\$ 8,962,363
INTERNAL SERVICE FUND			
Budgeted	\$ 996,089		\$ 996,089
Actual	978,173		978,173
Unspent Budget Authority	\$ 17,916		\$ 17,916

¹See note 10

²See note 7

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES & TRANSFERS OUT
BY OBJECT AND FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1991

	State Superintendent's Office	Central Services	OPI Administration	Distribution to Public School	Total
PERSONAL SERVICES					
Salaries	\$262,027	\$1,066,591	\$2,114,207		\$ 3,442,825
Hourly Wages		(20)			(20)
Employee Benefits	<u>53,204</u>	<u>238,864</u>	<u>478,356</u>		<u>770,424</u>
Total	<u>315,231</u>	<u>1,305,435</u>	<u>2,592,563</u>		<u>4,213,229</u>
OPERATING EXPENSES					
Other Services	24,457	139,659	633,625	\$ 4,202	801,943
Supplies & Materials	7,017	42,476	105,574	976	156,043
Communications	9,096	78,996	168,943		257,035
Travel	19,462	35,369	419,287	3,839	477,957
Rent		167,651	28,037	80	195,768
Utilities		12,550	3,675		16,225
Repair & Maintenance	2,978	51,466	35,658		90,102
Other Expenses	12,654	30,270	603,285	1,728	647,937
Goods Purchased For Resale		2,193			2,193
Total	<u>75,664</u>	<u>560,630</u>	<u>1,998,084</u>	<u>10,825</u>	<u>2,645,203</u>
EQUIPMENT AND INTANGIBLE ASSETS					
Equipment	10	84,282	115,019	4,737	204,048
Intangible Assets		4,311	1,542		5,853
Total	<u>10</u>	<u>88,593</u>	<u>116,561</u>	<u>4,737</u>	<u>209,901</u>
LOCAL ASSISTANCE					
From State Sources			15,122	407,930,780	407,945,902
From Federal Sources				883,391	883,391
Total			<u>15,122</u>	<u>408,814,171</u>	<u>408,829,293</u>
GRANTS					
From State Sources				1,289,328	1,289,328
From Federal Sources			43,446	4,123,186	4,166,632
Total			<u>43,446</u>	<u>5,412,514</u>	<u>5,455,960</u>
TRANSFERS					
Accounting Entity Transfers		411,072			411,072
Total		<u>411,072</u>			<u>411,072</u>
TOTAL PROGRAM EXPENDITURES	<u>\$390,905</u>	<u>\$2,365,730</u>	<u>\$4,765,776</u>	<u>\$414,242,247</u>	<u>\$421,764,658</u>
GENERAL FUND					
Budgeted	\$391,639	\$1,474,689	\$1,184,453	\$ 42,222,780	\$ 45,273,561
Actual	390,905	1,420,083	1,178,736	41,975,531	44,965,255
Unspent Budget Authority	<u>\$ 734</u>	<u>\$ 54,606</u>	<u>\$ 5,717</u>	<u>\$ 247,249</u>	<u>\$ 308,306</u>
SPECIAL REVENUE FUNDS					
Budgeted		\$ 90,877	\$3,974,743	\$373,004,637	\$377,070,257
Actual		83,663	3,587,040	372,266,716	375,937,419
Unspent Budget Authority		<u>\$ 7,214</u>	<u>\$ 387,703</u>	<u>\$ 737,921</u>	<u>\$ 1,132,838</u>
INTERNAL SERVICE FUND					
Budgeted		\$ 906,865			\$ 906,865
Actual		861,984			861,984
Unspent Budget Authority		<u>\$ 44,881</u>			<u>\$ 44,881</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF AGENCY FUND ACTIVITY
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1992

FUND BALANCE, July 1, 1990 \$ 360

ADDITIONS:

Fiscal Year 1990-91

Budgeted Receipts	34,453,227
Nonbudgeted Receipts	20,103
Prior Year Receipts	(50,160)

Fiscal Year 1991-92

Budgeted Receipts	38,286,000
Nonbudgeted Receipts	5,431
Prior Year Receipts	(189,582)
Prior Year Adjustments	(248)
Total Additions	<u>72,524,771</u>

DEDUCTIONS:

Fiscal Year 1990-91

Budgeted Disbursements	34,928,812
Nonbudgeted Disbursements	34,410
Prior Year Disbursements	(531,441)
Prior Year Adjustments	(8,252)

Fiscal Year 1991-92

Budgeted Disbursements	38,663,478
Nonbudgeted Disbursements	6,901
Prior Year Disbursements	(562,078)
Prior Year Adjustments	(6,699)
Total Deductions	<u>72,525,131</u>

FUND BALANCE, June 30, 1992 \$ 0

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

Notes to Financial Schedules

For the Two Fiscal Years Ended June 30, 1992

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The Office of Public Instruction (OPI) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental and Fiduciary Funds. In applying the modified accrual basis, OPI records:

Revenues when it receives cash or when receipts are measurable and available.

Expenditures for valid obligations when the office incurs the related liability and it is measurable.

State accounting policy also requires OPI to record the cost of employees' annual leave and sick leave when used or paid.

OPI uses accrual basis accounting for Proprietary Funds. Under the accrual basis, as defined by state accounting policy, OPI records revenues in the accounting period earned if measurable and records expenses in the period incurred, if measurable.

Expenditures and expenses may include entire budgeted service contracts even though OPI received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. Accounts are organized in funds according to state law. OPI uses the following funds:

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Notes to Financial Schedules

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. OPI's Special Revenue Funds include the Traffic Safety Education, Public School Equalization, Public Instruction Grant Administration, and Grant Clearance - Discretionary Accounts.

Proprietary Fund

Internal Service Fund - to account for providing goods or services to other divisions within OPI on a cost-reimbursement basis. The OPI Internal Service Fund includes one account which accounts for its indirect cost pool.

Fiduciary Fund

Agency Fund - to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. OPI's fiduciary fund is comprised of one agency fund which is used to record activity of federal programs over which OPI has no discretion as to whom or how much federal funds are distributed.

2. Annual and Sick Leave

Employees at OPI accumulate both annual and sick leave. OPI pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the accompanying financial schedules. In the Proprietary Fund, the increase in annual leave and 25 percent of the increase in sick leave are recognized as nonbudgeted expenses when the related liability is recorded at year end. OPI absorbs expenditures for termination pay in its annual operational costs. At June 30, 1992, the office had a liability of \$543,322 for annual and sick leave.

3. Pension Plan

Employees are covered by the Montana Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). OPI contributed \$230,506 in fiscal year 1990-91 and \$255,326 in fiscal year 1991-92, in total, to the two retirement systems.

- 4. General Fund Balance**
- The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.
- 5. Cash Transfer**
- OPI receives funding from a variety of sources. Some of this money is collected by other state agencies and recorded as revenue by those agencies when received. Examples include corporation license tax and coal tax collected by the Department of Revenue; and interest and other income earned on school land administered by the Department of State Lands. The revenue collected and recorded by others amounted to approximately \$179 million and \$175 million in fiscal years 1990-91 and 1991-92, respectively. To avoid duplicate recording of the same revenue on the state's accounting records, the state's accounting system uses a cash transfer. The cash which the other agencies collected and recorded as revenue is automatically transferred at fiscal year end to OPI's records.
- 6. Revenue Recognition**
- Revenue should be recognized in the accounting period in which it becomes both measurable and available. Prior to fiscal year 1991-92, state accounting policy defined "available" as "collectible within the current period or soon thereafter to be used to pay liabilities of the current period." During fiscal year 1991-92, state accounting policy was changed. Revenue is considered to be available if: 1) it has actually been received and deposited in the state treasury during the fiscal year; 2) the revenue is in the possession of a collecting agent on the last day of the fiscal year and will be received by the state within 60 days after June 30; or 3) the revenue is due for the period ending June 30 but the payer is allowed an administrative lead time of no more than 60 days to process the paper work to calculate the liability and make the remittance to the state. Because of the office's accrual process, fiscal year 1991-92 Special Revenue Fund revenue increased by approximately \$18 million.

Notes to Financial Schedules

- **7. Biennial Appropriation**

The 1991 Legislature authorized a \$24 million biennial appropriation from the state General Fund to the state equalization aid account for fiscal years 1991-92 and 1992-93. The office received and expended \$12.1 million during fiscal year 1991-92. This accounts for 80 percent of the increase in General Fund expenditures and transfers out between fiscal years 1990-91 and 1991-92 and 89.6 percent of the increase in other financing sources in the Special Revenue Fund.
- **8. Investment Earnings**

During fiscal year 1991-92, the state equalization aid account obtained an inter-entity loan from the General Fund. Due to the negative cash balance in the Special Revenue Fund prior to the loan, no assets were available to invest and generate earnings.
- **9. Negative Fund Balance**

The Special Revenue Fund reported a negative fund balance in both fiscal years 1990-91 and 1991-92. OPI shares the state equalization account with the Department of Revenue, the Department of Commerce, and the Department of State Lands. OPI's financial schedules show only OPI's portion of the account. OPI is primarily responsible for the expenditure activity of the program. As a result, OPI's portion of the equalization program fund balance is negative. The combined fund balance, for the four agencies, was \$8,529,077 at June 30, 1992.
- **10. Program Reorganization**

OPI consolidated the activities of three former programs (i.e., state superintendent's office, central services, and OPI administration) into the OPI administration program in fiscal year 1991-92. The activities of OPI did not materially change between fiscal years 1990-91 and 1991-92; only the programs used to report the activities changed. The financial schedules reflect the program names used and the respective activity levels in each fiscal year.

Agency Response

The Office of Public Instruction

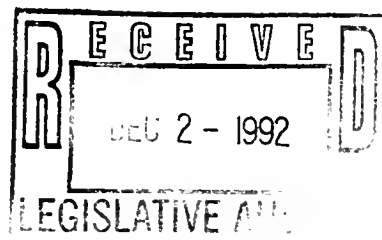
Nancy Keenan
State Superintendent



State Capitol
Helena, Montana 59620
(406) 444-3095

December 2, 1992

Jim Gillett, Deputy Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, MT 59620



Dear Jim:

Following is our response to the audit recommendations contained in the Office of Public Instruction's 1991-1992 audit report.

RECOMMENDATION #1

WE RECOMMEND OPI REVISE ITS PROCEDURES TO ENSURE COMPLIANCE WITH STATE LAW IN DISBURSING ADDITIONAL STATE EQUALIZATION AID.

Response - While we agree with the auditor's recommendation to comply with statutory requirements for additional state aid payments to districts with unanticipated enrollment increases, we disagree as to what those statutory requirements are.

The report says 19 payments made during the audit period were in violation of law and, as support, refers to 20-9-166, MCA, which says the superintendent "shall disburse the state aid... at the time the next regular state aid payment is made." Although we can agree this section of law would allow us to pay districts 100% of their entitlement increase in the month following approval of their application, we do not agree that it requires such payment. In our opinion, allocating the additional aid over the remaining foundation payments made to the district for the applicable year is also an allowable, and more reasonable, interpretation of the law.

Since section 20-9-166, MCA, was enacted, two other sections of law have been amended; one to require twelve equalization aid payments to districts each year (as opposed to the previous five), and another to allow applications for additional state aid as early in the school year as October. It would be unfair for districts with unanticipated enrollment increases to immediately receive 100% of their additional state aid entitlement, while districts with an anticipated or no enrollment increase wait to receive their equalization aid payments throughout the year.

Jim Gillett
December 2, 1992
Page 2

RECOMMENDATION #2

WE RECOMMEND OPI COMPLY WITH FEDERAL REGULATIONS CONCERNING THE TREATMENT OF CAPITAL OUTLAY WHEN CALCULATING MAINTENANCE OF EFFORT.

Response - We concur. The programming changes necessary to implement this recommendation have been made.

RECOMMENDATION #3

WE RECOMMEND OPI ENSURE THE FEDERAL FINANCIAL REPORTS RECONCILE TO THE STATE'S ACCOUNTING RECORDS.

Response - We concur. All federal financial reports will be reconciled to SBAS.

We appreciate the opportunity to respond to the audit report.

Sincerely,

A handwritten signature in cursive script that reads "Nancy Keenan". The signature is written in dark ink and is positioned below the word "Sincerely,".

cc: Kathy Fabiano

